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FAR EAST/PACIFIC BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 46
30 March - 6 April 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The Japanese Diet has established one committee to probe Communist activities but is holding off formation of another temporarily (p. 2).

The size of the armed forces in both northern and southern Korea is on the increase (p. 2).

Chinese Nationalist delegates to the Peiping peace conference appear to be both without a plan and without the support of all Nationalist factions (p. 3). The Communists, meanwhile, apparently have been successful in adding some 600,000 ex-Nationalist troops to their armies (p. 4).

French military and civilian officials in Tonkin continue to be alarmed by the worsening of their position in the northern Indochinese state (p. 6).

Despite a recent UK "gift" to Malaya, the costs of the anti-terrorist campaign threaten to bankrupt the Federation (p. 6).

Cabinet shifts in Burma which have eased the tension in Rangoon cannot be expected to bring an end to present disorders (p. 7).

Dutch opposition to the garrisoning of Jogjakarta with Republican forces may prove to be the sticking point at the Batavia meeting (p. 8).

The minority Nacionalista party is exploiting its "balance of power" position in the Philippine Senate at the expense of the Liberals (p. 8).

NOTE: A digest of recent reports on dissident activities in South China appears in Section III.

The marginal notations used in succeeding sections of this Weekly ("A", "B" or "C") indicate the importance of the items in R/FE opinion with "A" representing the most important.

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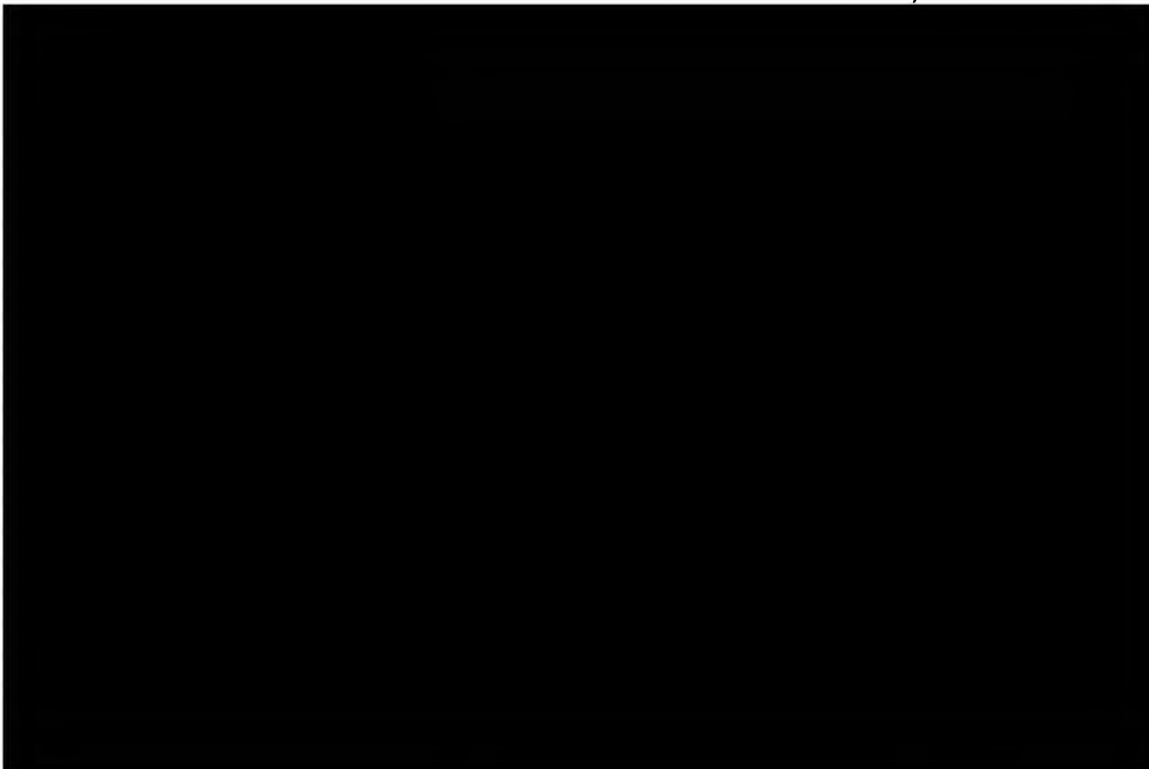
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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

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KOREA

CCP troops in northern Korea - - It is increasingly evident that scattered units previously under Chinese Communist command, mostly former Korean settlers in Manchuria, are moving to northern Korea. In view of the fragmentary nature of the available reports, a reliable strength estimate at present is not possible. However, it is known that the People's Army has expanded from two to a total of three divisions in the last six months. Integration of these experienced units into the still untried People's Army will enhance its capabilities considerably.

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UNCOK to consider troop withdrawal - - The United Nations Commission on Korea (UNCOK) will establish a sub-committee to study the problem of troop withdrawal. This results directly from the action by 63 members of the National Assembly in petitioning UNCOK to secure withdrawal of occupation troops from Korea. (See B/FE Weekly #45) At present UNCOK has two sub-committees, one to study the working of democracy in Korea and the other

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KOREA (Cont.)

to plan a visit to northern Korea. Neither is empowered to consider troop withdrawal, although that is one of the overall tasks given UNCOK in its terms of reference by the General Assembly. US Representative Muccio has also suggested to UNCOK that it might be timely to consider the question of troop withdrawal. The Commission's probable recommendation for withdrawal of all occupation troops can be expected within the next two months.

President Rhee, who in the past has opposed withdrawal of US troops until his own security forces are adequate to defend the Republic, probably will not oppose such an UNCOK resolution openly. Instead, he will increase his pressure on the US Government for additional arms and equipment to continue the expansion of the Korean security forces.

Consistent with Rhee's present program of expansion, the Korean Army is planning formation of a Cavalry Regiment. Present plans call for the activation of one mounted squadron at full strength (200 mounts), one understrength mechanized squadron and requisite service, maintenance and transportation companies. An armored squadron is also planned, if US tanks should be made available in the future.

Except for mounts, the Korean Army cannot equip, train or re-supply a cavalry regiment unless the US makes available all the necessary ordnance and equipment. Furthermore, the terrain of Korea is not adapted to the use of mechanized units except in street and village fighting. Mounted units, however, could be used effectively both in operations against the guerrillas in southern Korea's mountain areas and for patrol along the 38th parallel.

The northern Korean People's Army includes an armored unit equipped with at least 30 tanks and at least one mounted company.

CHINA

Weak Nationalist Delegation Begins Peace Negotiations -- Despite weeks of preparation for a formal conference with the Communists, the Nanking Government apparently has no clear-cut peace program or strategy and its six delegates are united chiefly in their confused and varied hopes for some kind of settlement. Lacking political cohesion and strong governmental backing, the delegation will probably refer major issues to Nanking for decision. While leading delegate SHAO Li-tze apparently favors peace on almost any terms, Chairman CHANG Chih-chung has told US officials that he would not accept any settlement involving estab-

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lishment of one-party government, suppression of individual freedom, or a strongly pro-Soviet policy. LIU Fei, Whampoa general and former Nationalist Deputy Chief of Staff, was appointed at the last moment to handle the key issue of military reorganization, and will probably be responsive to the influence of Premier HO Ying-chin and other Nationalist military leaders.

Meanwhile, Nationalist efforts to negotiate any overall settlement are made more difficult by activities of right-wing Kuomintang leaders. Meeting recently in Canton under SUN Fo's chairmanship, members of the Kuomintang Central Executive Committee and the Central Political Council adopted conditions for an "honorable peace" which are incompatible with the Communist demands. These Kuomintang leaders may attempt to influence the negotiations and to reject tentative peace commitments by asserting the traditional power of the Kuomintang over governmental policies. Although CHIANG Kai-shek ostensibly is supporting the Nanking Government's current peace effort, his position as party leader and his previous espousal of the "honorable peace" concept suggest that he may support those who oppose any general acceptance of the Communist demands.

Captured Nationalists Add to CCP Strength -- Interrogation of returned Nationalist soldiers indicates that the Chinese Communist Party (CCP) has successfully disposed of over half the Nationalist troops who surrendered, deserted or were captured by the CCP during the past six months. This total includes 480,000 troops in Manchuria, 235,000 in North China, and 395,000 in East China. The Communists have retained about 400,000 of the captured Nationalists for use as individual replacements and service troops and about 210,000 dissaffected or surrendered Nationalists, who, they feel, are more "mature" politically, for use in combat units.

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In the past, the Communist pattern for dealing with such troops has been to separate officers above the grade of regimental commander (colonel) from their units, to inform technicians that they "must serve" with the "forces of liberation," to assign certain combat soldiers ---2 or 3 men to a Communist squad--- for use as assault troops and to give the remainder--the majority--their choice of remaining with the CCP or returning to Nationalist areas after a period of indoctrination. The CCP will probably be able to integrate into their own order of battle up to 60% of the captured Nationalists and about 90% of the voluntary turncoats so long as they are able to feed and clothe them.

Communists shift emphasizes cities -- The Central Committee of the Chinese Communist Party (CCP), in plenary session last month for the first time since 1945, endorsed the leadership of Chairman MAO Tse-tung, took official note that the time has come for "shifting the center of gravity of Party work...from the rural area to the cities," and suggested its belief that the USSR will assist the CCP in its primary

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mission of developing industrial production.

Orthodox Marxism views the urban industrial proletariat as the "carrier" of the socialist revolution. Chairman MAO, however, came to power with the failure of LI Li-san's "proletarian revolution" in 1927-30. Rejecting such "Leftism," MAO built the CCP upon an organized and armed rural peasantry. The Central Committee, noting that "history has proved that this policy was entirely necessary, entirely correct and entirely successful," implies that LI was wrong not in his choice of doctrine but in his estimate of the proper time for its application; only now, this year, has the period begun for transferring the leadership to the cities and for "working from the cities to the countryside."

The Central Committee also endorses MAO's temporarily conciliatory policy, as envisaged in the "New Democracy," rather than LI's more aggressive version of Marx-Leninism. Although it is proper to emphasize the leading role of urban workers, the Party must "unite other laboring masses..., the intelligentsia..., the petty and liberal bourgeoisie..., and "democratic" personages outside the Party," in order to present a common front against the immediate enemy, "the imperialists, Kuomintang reactionaries, and bureaucratic capitalists." With such a popular front, the CCP may devote itself to its principal task of "rehabilitation and development of industrial production."

The Central Committee notes that "building a new China" will be even more difficult than winning the civil conflict, a "first step" which has required almost 30 years. The second step, the Committee states, will be facilitated by the establishment of a "People's Democratic Republic," the leadership of the CCP and "the aid of...the Soviet Union...". The Committee does not speculate on the form which such aid will take and perhaps nothing more is meant than Soviet contributions to the economy of Manchuria and Sinkiang. It is most unlikely that the USSR will invest any significant amount of capital in China proper, or more than a very modest amount in the border areas. Since non-Soviet foreign capital, either public or private, will be almost impossible to attract and Chinese capital is limited, the heaviest share of the burden for financing China's industrialization will inevitably be borne by the Chinese peasantry which has lost its place of primacy in the revolution. The CCP will be faced with a dilemma which confronted the early leaders of the USSR--how to make the peasantry pay for a capital expansion from which it derives no immediate benefit. The CCP's solution--of large-scale forced savings through rigid state control of agriculture--will be less barbarous but no less painful.

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INDOCHINA

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French reinforcements for Tonkin urged-- French officials in Tonkin, both military and civilian, continue their pessimistic outlook resulting from the heavy military activity in Tonkin along the Chinese border area and the increasingly daring terroristic attacks against Hanoi, which present French strength there cannot prevent (see Section III). Recent reports state that cooperation between considerable forces of southern Chinese bandits and the Viet Minh was followed by temporary French loss of the strategic border town of Moncay, thus further endangering the French position in Tonkin. The French are concerned over the possibility of increasing Chinese assistance to the Vietnamese rebels, particularly when South China falls under the domination of the Chinese Communists.

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Few French officials believe that Bao Dai's return will lessen resistance by the Ho Chi Minh forces. They insist that the former emperor's return is doomed to failure without reinforcements from France to contain the Viet Minh troops within present limits. At the present time, it appears quite unlikely that such aid will be forthcoming in the amounts necessary to improve the situation.

MALAYA

Terrorist suppression costs mount-- Although British anti-terrorist operations have been increasingly successful, the cost of the campaign has become almost prohibitive. Security measures now cost the Federation an estimated US\$150,000 daily. Thus, while the terrorists have not been able to disrupt the country's economy by lowering tin and rubber production substantially, they have scored a victory from a different but equally effective angle.

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Sir Henry Gurney, High Commissioner of the Federation, recently stated in a private conversation with US Consul General Langdon that the financial position of the Federation is critical and that the scale of present police operations must be reduced shortly if the Federation is not to go bankrupt. This incipient insolvency was recently announced to Langdon by another official, Dr. Frederick Benham, Economic Adviser to Commissioner-General MacDonald. The depth of this pessimism may be too great, but the responsible positions of the British spokesmen as well as the continuing seriousness of the terrorist situation lend credence to their views.

Last week the UK announced a gift, with no strings attached, of \$5,000,000 as aid in financing Malaya's internal security, over and above present military aid. While not inconsiderable, this sum was not received with unanimous approval by the Federation's Legislative Councillors. Dato Onn, influential Prime Minister of Johore, characterized it as

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"niggardly" and "...a flea bite in comparison with what the Malay States and Malaya as a whole had done for Britain." He urged the High Commissioner to make further representations to Britain to "honor a debt" which, he said, had accumulated since the British entry into Malaya. Several other members expressed disappointment that the gift was not larger.

"Unless conditions improve substantially, the Federation will undoubtedly have to take advantage of Britain's offer, advanced along with the gift, to reexamine the Federation's needs before the end of this year. Costs are mounting and, according to Langdon, hope of early extermination of the terrorists is vanishing. To a hard-pressed Britain, appreciation of Malaya's dollar-earning capacity, further aid to Malaya will be a severe but probably inescapable burden.

BURMA

Government shakeup will not ease Karen problem—The recent resignation of Socialist and Yellow Armed Band Peoples' Volunteer Organization (PVO) members from the Burmese Cabinet has left Prime Minister Thakin Nu with a skeleton cabinet composed of independent politicians with little or no personal following. Although the widespread armed opposition to the government was probably the leading factor behind the cabinet resignations, it is possible that there were other important though less apparent reasons. In view of the fact that the resigning Ministers pledged their support to any Government committed to the restoration of peace, stability of the Union and the holding of free elections, their purpose may have been to allow Thakin Nu, supported by a cabinet whose members appear to have no personal political connections, to attempt to reach an agreement with the insurgent Karens and White Armed Band PVO. In line with this reasoning, Nu has accepted the proffered good offices of the Commonwealth. In response, the British, Indian and Pakistan ambassadors are sending a joint message proposing peace talks to the Karens. On the other hand, it has been reported that Supreme Court Justice E Maung and Supreme Commander Ne Win, both believed to be acceptable to the White Armed Band PVO, will relieve Nu of the Home and Defense portfolios respectively. This move may be a parallel attempt to placate the insurgent PVOs.

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The Karens will probably accept the Commonwealth offer, but will enter into negotiations with grave reservations, and will insist upon strong guarantees - possibly from the Commonwealth itself - which are unlikely to be forthcoming. The PVO is apparently undecided as to whether to enter a coalition under Nu, or attempt to seize complete control of the government. Most of them will not condone negotiations with the Karens, or cooperation with Thakin Nu unless they are in a position to dominate

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the coalition. Should some PVO leaders join a coalition, it is quite likely that the PVO will split. If the PVO attempts to unseat the government by force, the result will be violence in Rangoon and the outcome is unpredictable. There are indications that the PVO is already in a strong position to stage such an uprising although it would be opposed by those forces still loyal to the government. All things considered, the temporary easing of the tension in Rangoon as a result of the cabinet resignations does not presage any improvement in the situation in Burma in the near future.

INDONESIA

Control of Jogjakarta key issue at Batavia meeting—Conditional acceptance by the Netherlands of an invitation to attend the UNCFI-sponsored meetings in Batavia has been followed by a Republican conditional acceptance. The Dutch have indicated that their acceptance must not prejudice Netherlands responsibility for "freedom and order in Indonesia," and the Republicans have made it equally clear that initial discussions must be limited to the practical details of restoration of the Republican Government to the capital city of Jogjakarta. Basically, both sides are particularly concerned with the role of the Republican Army in maintaining law and order in the Republican capital. Dutch political leaders have consistently opposed the use by the Republicans of their "private" army, as opposed to a "federal" army, in any area in Indonesia. The Republicans insist that restoration and maintenance of order in Jogjakarta depends entirely upon the presence of combined Republican military and civil police there.

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The US Representative to the UN Committee for Indonesia, recommends: (1) Dutch forces be withdrawn from Jogjakarta and its environs and (2) that a sufficiently large Republican force be permitted to replace these Dutch military units. He feels that only thus will the Republicans be in a position to reestablish the popular support necessary for successful compliance with a cease-fire order.

PHILIPPINES

Nacionalistas hold Senate balance of power—Although President Quirino's political position appears to be improving, he is threatened by a force which is paradoxically one of the most important sources of his strength: Quirino is completely dependent upon the Nacionalista-Quirinista alliance in the Senate. Aware of their "balance of power" strength, the Nacionalistas have evidently pressed for every possible advantage. They have been assigned a majority on the last two Senatorial investigating committees and in accordance with a Senate reorganization plan they may hold chairmanships

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PHILIPPINES (continued)

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of the most important Senate standing committees. The Nacionalistas are also pressing for reexamination of their protests against the election of certain Liberal Senators in November 1947. Should Quirino win over a sufficient number of Avelino followers or should a compromise be effected between the Liberal factions, Quirino could end his dependence upon the Nacionalistas. However, since neither of these possibilities is imminent, the Nacionalistas may be expected to maintain their important bargaining position for the remainder of the current Congressional session.

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